EUROPEAN CENTRAL BANK

EUROSYSTEM

Financial Sanctions and Russian Trade **Discussion**

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Disclaimer

The views expressed are mine and do not necessarily reflect those of the European Central Bank

This paper

Main findings:

- Financial sanctions (SWIFT bans, Western bank exit) sharply reduced Russian trade with the West and non-West

- Effects were strongest on the extensive margin

- Financial and trade sanctions reinforce each other

- Financial sanctions created persistent and broad-based disruption, while trade sanctions triggered trade diversion

This paper

Data and methodology:

- Dataset: Russian customs transaction-level data (2016–23), UN Comtrade
  - Coverage: imports, exports, banks, products, partners
  - Unique feature: transaction bank identifiers (2016–17)

- Method: panel regressions at bank-product-country-month level

- Identification: sanction dummies
  - SWIFT rounds, Western bank exits, EU/US trade bans, tariffs
  - Interaction terms to capture amplification

This paper is a great paper!

- Exciting dataset, well-executed and robust econometrics
- Policy relevant!
- Two comments on the margin (academic hat vs. policy hat)

Comment 1: Trade versus financial sanctions

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- Financial sanctions: severe and broad-based effects (West and non-West)
- Trade sanctions: triggers redirection of trade
- Makes sense! But do trade sanctions get a fair chance in the stand-off?

Comment 1: Trade versus financial sanctions

Trade sanctions

- Dummy on product
- Re-direction captured in data (detailed coverage of trade and product dimension)
- Trade flow re-direction clearly captured in the results

Financial sanctions

- Dummy on banks
- Is possible “rewiring” captured to same extent? (coverage alternatives?)
- Data challenges!
- But also due to model assumptions?

Comment 1: Trade versus financial sanctions

Let me explain

- Assumptions:
  - Firm–bank link is stable (tested for 2016–17), even after sanctions
  - Dummy for sanctioned bank imposed for full sample after sanction

- No alternatives following SWIFT sanctions?

Comment 1: Trade versus financial sanctions

Some examples of alternatives

27/12/2024	Finance minister Siluanov confirms that Russia is using **bitcoin and other digital currencies** for trade payments as part of its **efforts to avoid G7 sanctions**.
27/2/2024	BRICS members meet in Brazil to discuss the **BRICS Bridge payment** platform.
16/1/2024	Four new countries join the **Russian Financial Messaging System** (SPFS), increasing the number of members to 20.
16/1/2024	**Trading volumes in Chinese yuan surpass those in US dollars** on the Moscow Exchange in 2023.
03/07/2023	Indian refiners start paying in **yuan for Russian oil imports**.
27/12/2023	Russia and Iran sign an agreement to trade using their national currencies, also **promoting use of non-Swift interbank systems**.

Sources: Reuters, Bloomberg L.P., Ledger Insights, Central Banking, Financial Times, as collected in ECB (2024;2025): The International Role of the Euro report.

Comment 1: Trade versus financial sanctions

Let me explain

- Assumptions:
  - Firm–bank link is stable (tested for 2016–17)
  - Dummy for sanctioned bank imposed for full sample after sanction

- Reality: firms and banks might have partially adjusted
  - This “re-wiring” is not in dataset (due to data availability)
  - But assumption firm-bank stability and sanction dummy might matter, too

Comment 1: Trade versus financial sanctions

Questions

- Would “re-direction” after financial sanctions even be visible in the dataset, as it is for trade?
- SWIFT dummy may overstate duration as firms/banks find alternatives; affects persistency of effects?
- Financial re-wiring is harder than trade diversion; just a matter of time?
- Data issue. But perhaps discussion on assumptions would be helpful.

Comment 2: Take-away for policymakers

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- Financial sanctions more effective: broad-based cut-off of trade
  - Also in the long run?
- Financial sanctions induce structural solutions (e.g. alternative messaging and payment systems). Structural break away from Western systems.

Questions

- How many rounds of financial sanctions can you impose?
- Does this affect the effectiveness? Discuss trade-offs.

This paper is a great paper

- Exciting dataset and relevant findings.
- Invites further analysis in unexplored areas (e.g. sectoral trade dimensions).
- Must read!

Thank you